

# Teradata Profitability Analytics Solutions

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There's more. Because it operates on the Teradata Database, Teradata Value Analyzer delivers detailed information with unmatched speed. That means you can quickly complete even the most complex profitability calculations – then analyze those calculations to determine the best steps toward improving profitability.

Lifetime values are estimated by calculating the Present Value of objects, such as customers, accounts, products, cash flows, households, and channels, as well as estimating the value of the object in the future. The process of calculating the present value of the current object is referred to as the Net Present Value (NPV); the process of determining the current value of the object in the future is referred to as the Future Value (FV). Both of these components are used to indicate the Lifetime Value of any object.

## Teradata Lifetime Value

Teradata Lifetime Value is the first business intelligence software that lets you and your business predict the ongoing value of any object. In fact, by basing all its calculations on the object, Teradata Lifetime Value can measure anything you can define: customers, products, and delivery channels, as well as your sales force, geographic regions, or customer service centers.

Teradata Lifetime Value lets you look toward tomorrow. It brings together the results and trends of the past – everything you're using to determine current value – and blends them with future metrics, including propensities, attrition rates, and current value information. The result is a single version of the truth, a detailed look at the future that will help you pave the way to profitable performance in the months and years ahead.

"If used in combination with Teradata's platform, Teradata Value Analyzer is able to analyze enormous volumes of customer behavior data in hours rather than days. The resulting data can then be used to improve decision-making in many areas, including channel migration initiatives, price setting, and identifying under-served customer segments. And because the calculation is based on actual customer transaction volumes, it is more accurate than software packages that use estimations."

—John Koenig, Director, Global Financial Services Group

## The Power to Predict

Teradata Lifetime Value is a set of complex mathematical models that runs inside your Teradata Database. The results of the calculations are placed directly into Teradata tables. The application applies the models to detailed behavior data, which in turn uncovers patterns and trends. Those patterns and trends are linked to customer attrition projections, demographics, and propensity to buy data. The result: a powerful insight into lifetime value easily accessed by any OLAP tool or through a query.

Whatever the activity or application, the result is the same – a clearer picture for designing strategies and tactics that support the expected values of products, offers, customers, or channels.

## Build a Better Business

Teradata Lifetime Value results will help you make more informed decisions about a wide range of activities, including:


### Marketing

- > Identify long-term targets
- > Determine optimal customer mix
- > Attract, retain, and maintain profitable relationships
- > Target intelligent offers to specific customers

### Product Management

- > Support product design, pricing, packaging, and relationships
- > Assist in future product and offer development and testing

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## *Distribution*

- > Calculate channel lifetime value
- > Improve customer service, relationship management, and migration

## **Build on Your Teradata Foundation**

We engineered Teradata Value Analyzer and Teradata Lifetime Value for your data warehouse environment. The Teradata Warehouse has an underlying philosophy of "load once, use many." This enables you to use existing data in the warehouse, for example, customer management data for other solutions, such as Profitability Analytics. And Teradata profitability analytics leverage the parallelism of the Teradata Warehouse – they're 100% scalable. So the applications grow right along with your business. And no other database's performance can match the speed of Teradata. Profitability calculations that might take other databases days to run can be completed in Teradata in a

## **What is Lifetime Value?**

Traditionally, companies have measured success through profit and loss (P&L) statements. This traditional P&L approach captures revenues, factors in costs and expenses, and determines a bottom line: net income. While the P&L will continue to be the foundation for businesses, an evolution is occurring that will change the measurement process forever. More and more, businesses are looking for ways to strengthen their profitability measurements, to translate the activities and values of the past into future – lifetime – calculations.

matter of hours or even minutes. And we give you fast, accurate access to detailed event and transactional information – anywhere in your organization.

## **The Teradata Advantage**

Teradata has a rich history of providing analytical solutions that solve real-world problems for companies in many industries. We've given businesses like yours the knowledge and technology to drive strategic and operational decisions and to create

close, personal relationships with every customer. Teradata has the power to help you make better, faster decisions so you can manage your business and drive growth.

In addition, our services professionals can offer consulting, integration, management, and maintenance services, as well as vital support in data mining, analytics, and customer education. These experts are trained in your industry and are ready to go to work for you on day one. They can help you deliver the results you're looking for and will answer your business and technical questions.

## **For More Information**

To learn more about how a Teradata Profitability Analytics solution can expand and enhance your data warehouse and your ability to build a better, stronger business, contact your Teradata representative or visit us at [teradata.com](http://teradata.com).


"Lifetime Value helps with our understanding of how investments made today pay out over time, and explains how profitability and customer behaviors are related. It's not just response rates or cross-sell ratios that count, but how they contribute to building customer equity over time. Without lifetime value analysis, you simply won't know."

— Tom Richards, Member, Portman &

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Applications > Profitability Analytics

Understanding business performance is more crucial than ever in today's tough economic climate. And the way you view your business is also undergoing critical change. But before allocating resources to any strategy, you must understand the value of your customers, not just your product and delivery channels.

As products and services become commodities, and market penetration rates begin to peak, it's important for you to implement new strategies...knowing who your most profitable customers are and why.

Maybe you're currently using techniques, such as revenue or propensity modeling, to target those customers you believe to be most profitable. But are your measurement models based on actual customer behavior? Or are they general ledger and product/profit-based models that may be giving you an inaccurate or misleading picture of a customer's value?

## Conducting Business around Customer Behavior

Prior to implementing Teradata Value Analyzer, RBC (formerly Royal Bank of Canada) conducted customer value analysis using sophisticated methodologies developed at the institution.

It used a system of deciles to classify customers according to their calculated value. However, once RBC implemented Teradata Value Analyzer, the deciles changed dramatically.

Using Teradata Value Analyzer, analyses showed that 75% of the bank's clients shifted two or more deciles. That's three out of four accounts. The bank used this critical information to decide how and where to invest marketing dollars, how to develop new pricing strategies, and how to determine RBC's greatest challenges - and greatest opportunities.

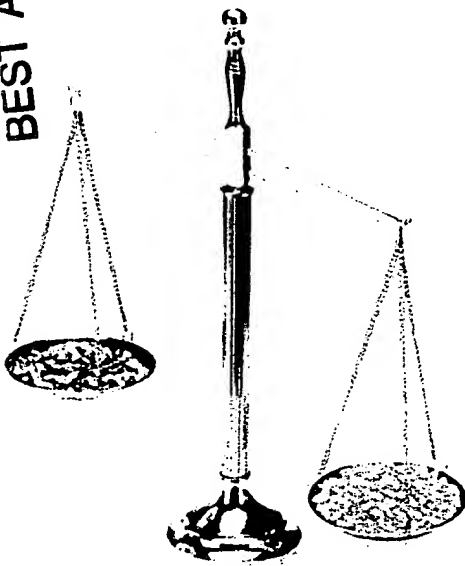
Your best strategy is to implement a profitability analysis solution that provides measurements based on a single, consistent view of your business. You need a solution that lets you view profitability across multiple dimensions so that you can make accurate, informed decisions based on detailed data from across your entire enterprise. That means moving beyond traditional methods of measuring value toward a behavioral approach to profitability. And toward a solution that lets you use the details in your profitability calculation to solve your business problems.

### A Behavioral-Based Approach to Profitability

Teradata, a division of NCR, has created a comprehensive portfolio of profitability products designed to help companies like yours look beyond profitability models that

are based solely on summary information due to application and/or technology limitations. Teradata Profitability Analytics solutions enable you to calculate both the current and lifetime value of your customers, products, services, channels, and offers in any dimension you choose. It's a unique behavioral approach that provides accurate assessments of the value of every facet of your business.

Teradata Profitability Analytics solutions include Teradata Value Analyzer and Teradata Lifetime Value. Both products calculate profitability at the most basic profit object and interaction level specific to your industry. In telecommunications, that profit object might be the subscriber; in banking, the account; in transportation, the shipment; and in travel, the reservation record. Because the calculation includes



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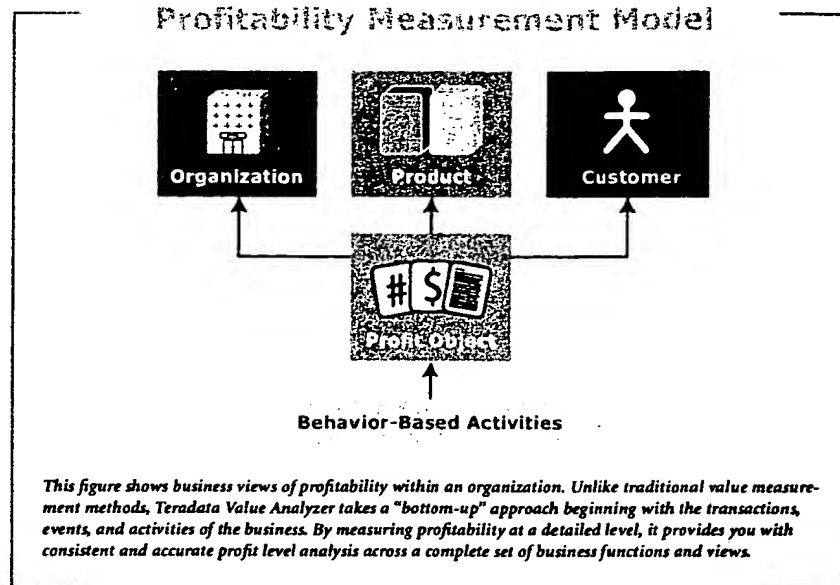
actual transactions, behaviors, and activities – not averages – you receive a more consistent, more detailed, and accurate profit-level analysis across your entire enterprise.

## Teradata Value Analyzer

Teradata Value Analyzer is a current value measurement tool providing you with multi-dimensional views of profitability. Using behavioral-based activity as the foundation, in addition to your distinct business rules, it lets you focus on profit measures driven by relationships. The result? A solution that satisfies your need for detailed enterprise profitability reporting and analysis. A solution that leads to more informed marketing, sales, and service decisions that can help you maximize profitability.

This dynamic profitability measurement solution is an essential element for your Customer Management strategy. Why? Because Teradata Value Analyzer does more than merely calculate profitability numbers – it provides the necessary details behind the metrics to answer the question WHY? The profitability calculation looks at profit contribution across six components:

- > Direct and indirect revenue
- > Interest and other revenue
- > Direct expenses – costs that apply to behaviors or events
- > Indirect expenses – the overhead costs of doing business
- > Risk and loss provisions – applying the cost of potential risks and fraud
- > Capital allocations – applying the cost of capital



## A Different Viewpoint

Unlike traditional value measurement methods, Teradata Value Analyzer takes a bottom-up approach that begins with a base profit object and provides you with consistent and accurate profit-level analysis across a complete set of business functions. This approach provides you with a deeper understanding of the cost and return you receive from each account, customer, subscriber, shipment, policy, or any profit object you want to measure. From this base profit object of measure, you can develop any number of profitability aggregations: by customer, channel, product, or organization. The results of Teradata Value Analyzer can be easily reconciled with the general ledger giving you the confidence that your results are accurate. It provides consistent analysis across the enterprise of customer,

product, or channel effectiveness, as well as organization historical profitability.

## Results You Can Use

The result is information you can use to support an array of strategic and tactical decisions concerning:

- > Channel migration initiatives
- > Relationship pricing
- > Targeting campaigns to the right customers
- > Cost management
- > Service levels
- > Structuring of products and services
- > Identifying under-served customer segments
- > Customer management

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